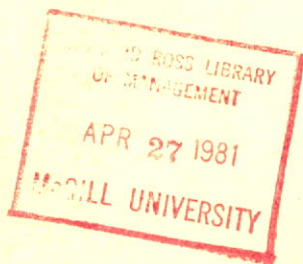


MCINTYRE MINES

1980 ANNUAL REPORT



About McIntyre

McIntyre is engaged principally in the mining, preparation and sale of metallurgical coking coal and also, through its 37.1% equity interest in Falconbridge Nickel Mines Limited, participates indirectly in the mining, processing and marketing of nickel, copper and other mineral products in Canada and other countries.

The Company's Smoky River coal properties, located near Grande Cache, Alberta, contain multiple seams of high grade, low-volatile metallurgical or coking coal used primarily in steel production. Historically, McIntyre's coal sales have been mainly for export under sales contracts with certain Japanese steel mills.

Falconbridge is one of the largest producers of nickel in the world and has been engaged in the mining business since 1928. Principal products are nickel and copper, although some thirty other mineral products, including base and precious metals, industrial minerals and manufactured goods for industrial use, are produced by Falconbridge directly or through affiliates.

Annual Meeting

The Annual Meeting of the shareholders will be held on Tuesday, May 4, 1981 at 10:00 A.M. (Calgary Time) in the Presidents Room, Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with the management proxy circular and form of proxy, are being mailed with this report.

MCINTYRE MINES

REGISTERED OFFICE AND EXECUTIVE OFFICES

Three Calgary Place
14th Floor
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of McIntyre Mines Limited (the "Corporation") will be held in the Presidents' Room, Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta, Canada, on Monday, May 4, 1981, at 10:00 o'clock in the forenoon, Calgary time, for the following purposes:

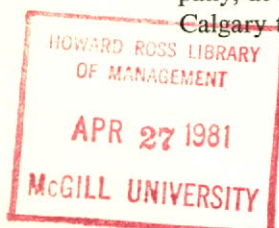
1. to receive the Annual Report and financial statements for the financial year ended December 31, 1980 and the report of the auditor;
2. to elect directors;
3. to appoint an auditor and authorize the directors to fix the auditor's remuneration; and
4. to transact such further and other business as may properly come before the meeting.

DATED at the City of Calgary, Alberta, this 9th day of April, 1981.

By Order of the Board,

WILLIAM M. BONE,
Corporate Secretary

Shareholders who are unable to attend the meeting in person are requested to date, sign and return, in the envelope provided for that purpose, the enclosed form of proxy. Forms of proxy to be used at the meeting must be deposited with the Corporation's transfer agent, Canada Permanent Trust Company, at 311 Sixth Avenue S.W., Calgary, Alberta, T2P 0R6, before 10:00 o'clock in the forenoon, Calgary time, on Friday, May 1, 1981.



MCINTYRE MINES

Three Calgary Place
14th Floor
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

MANAGEMENT PROXY CIRCULAR

**Annual Meeting of Shareholders
May 4, 1981**

SOLICITATION

This Management Proxy Circular ("Circular") is furnished in connection with the solicitation of proxies by management of McIntyre Mines Limited ("Corporation") (which for purposes of the proxy rules of the United States Securities and Exchange Commission ("SEC") includes the directors of the Corporation) to be used at the annual meeting of shareholders of the Corporation to be held in Calgary, Alberta on May 4, 1981, at the time and place and for the purposes set forth in the accompanying Notice of Meeting ("Notice").

It is expected that the solicitation will be primarily by mail, but may be supplemented by telephone or other personal contact to be made without special compensation by regular officers and employees of the Corporation. The Corporation will reimburse shareholders' nominees or agents for the costs incurred in sending solicitation materials to and obtaining instructions from their principals. The entire cost of solicitation will be borne by the Corporation.

The Notice, Circular and accompanying form of proxy will be first mailed to shareholders of the Corporation on or about April 9, 1981. Pursuant to the Canada Business Corporations Act ("Act") the record date for shareholders entitled to notice of the meeting is the close of business on the day immediately preceding the day on which the Notice is mailed. On March 16, 1981 the Corporation had outstanding 3,668,573 common shares without nominal or par value ("Common Shares") each of which carries one vote at the meeting.

VOTING, PROXIES AND QUORUM

Pursuant to the Act, the Corporation will prepare a list of shareholders indicating the number of Common Shares held by each such shareholder at the close of business on the day immediately preceding the day on which the Notice is mailed. Every shareholder named on the list is entitled to one vote for each Common Share shown opposite his name on the list, except to the extent that he has transferred ownership of any of his Common Shares after that date and the transferee thereof produces properly endorsed share certificates for or otherwise establishes that he owns the shares and demands not later than ten days before the date of the meeting that his name be included in the list before the meeting, in which case such transferee is entitled to one vote for each of his Common Shares at the meeting. Shareholders may examine the list during usual business hours at the offices of Canada Permanent Trust Company, 311 Sixth Avenue S.W., Calgary, Alberta, T2P 0R6 and at the meeting.

Anyone who desires to be represented at the meeting by a proxyholder or proxyholders must deposit a properly completed form of proxy with the Corporation's transfer agent, Canada Permanent Trust Company, at the address noted above before 10:00 o'clock in the forenoon, Calgary time, on May 1, 1981. Shares represented by a properly executed proxy in favour of a person whose name is printed on the accompanying form of proxy will be voted on any ballot that may be taken in accordance with the choice specified in the proxy. **If no specification is made to vote otherwise, the shares will be voted in respect of the election of directors and the appointment of Arthur Andersen & Co. as auditor.**

The accompanying form of proxy confers discretionary authority with respect to amendments to the matters identified in the Notice and other matters that may properly come before the meeting. Management of the Corporation is not aware of any such amendments or other matters to come before the meeting. However, if any such amendments or other matters which are not now known to management shall properly come before the meeting, the person whose name is printed on the accompanying form of proxy will vote thereon in accordance with his best judgment.

The by-laws of the Corporation provide that two individuals present in person, each of whom is a shareholder or proxyholder entitled to vote at the meeting, shall constitute a quorum for the appointment of the chairman and the adjournment of the meeting, and for all other purposes at least three individuals present in person, each of whom is a shareholder or a proxyholder entitled to vote at the meeting and who together hold or represent by proxy not less than 25% of the total number of voting shares, shall constitute a quorum for the transaction of business.

REVOCATION OF PROXIES

A shareholder may revoke a proxy by depositing an instrument in writing executed by him or by his attorney authorized in writing at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of the meeting on the day of the meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, by subsequently appointing, in writing, another person as proxy.

PRINCIPAL HOLDERS OF VOTING SHARES

The following table identifies the only persons who, to the knowledge of the directors and officers of the Corporation, beneficially own, directly or indirectly, or exercise control or direction over, more than 10% of the Common Shares (being the only outstanding class of voting securities of the Corporation), the approximate number of shares so owned, controlled or directed by each such person and the percentage of voting shares of the Corporation represented by the number of shares so owned, controlled or directed. No other person is known by the Corporation to own beneficially more than 5% of the outstanding Common Shares.

	Number of Common Shares Owned, Controlled or Directed	Percentage of Outstanding Shares Represented
CANADIAN SUPERIOR OIL LIMITED(1).....	967,889	26.4%
THE SUPERIOR OIL COMPANY(2).....	974,645	26.6%

- (1) Voting and investment power is shared with The Superior Oil Company ("Superior") which owns all of the voting shares of Canadian Superior Oil Limited ("CSO" or "Canadian Superior").
- (2) Superior has sole voting and investment power with respect to all of the shares indicated. Does not include the 967,889 shares owned by CSO shown above with respect to which Superior shares voting and investment power and does not include 175,825 (4.8%) Common Shares owned directly by Falconbridge Nickel Mines Limited ("Falconbridge"). The Corporation owns 1,848,414 (37.1%) of the equity shares of Falconbridge. Thus Superior's aggregate direct and indirect beneficial ownership of the outstanding Common Shares is approximately 58%.

Management understands that Mr. H. B. Keck, Chairman of the Board of Superior, and his brother, Mr. W. M. Keck Jr., have sole voting and investment power with respect to approximately 15.5% of the outstanding shares of common stock of Superior and thus may be deemed to be controlling persons with respect to Superior, CSO and the Corporation.

ELECTION OF DIRECTORS

The articles of the Corporation provide that the number of directors shall consist of a minimum of six and a maximum of 11 and the actual number may be determined from time to time by the directors. The directors have determined by resolution that there will be seven directors.

Unless otherwise specified on the accompanying form of proxy, it is the intention of the persons named therein to vote for the election of the seven persons named herein. The directors will be elected by a majority of the votes cast in respect of the election of directors at the meeting. Each director elected will hold office, subject to the by-

laws, until the next annual meeting of shareholders or until his successor is duly elected or appointed in accordance with the by-laws. There are no directors of the Corporation presently in office whose term of office will continue after the date of the meeting.

Management has no reason to believe that any of the persons listed below will be unable or unwilling to serve as a director, but if that should occur for any reason prior to the meeting, proxies specifying that they are to be voted for the nominees listed below will be voted for substitute nominees. Proxies in the accompanying form cannot be voted for a greater number of persons than the number of persons listed below.

Listed below for each nominee is his name and municipality of residence, age, the year in which he became a director of the Corporation, principal occupation and business experience for the past five years and directorships in certain publicly held corporations.

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Principal Occupation and Business Experience</u>	<u>Year</u>	<u>Directorships of Certain Publicly Held Corporations (1)</u>
CHARLES LESTER BARNEY(2)(5)(6) Houston, Texas	55	Senior Vice President of Superior, Houston, Texas since 1978; Vice-President – Production of Superior from 1975 to 1978	1979	Superior
MARSH ALEXANDER COOPER(2) Toronto, Ontario	68	Consultant to Falconbridge since June 1980; prior thereto President and Chief Executive Officer of Falconbridge, Toronto, Ontario for more than the past 5 years	1962	Superior Falconbridge
ERNEST CHARLES MANNING(3)(4) Edmonton, Alberta	73	Member of the Senate of Canada; Chairman, Manning Consultants Ltd., (management consultants) Edmonton, Alberta for more than the past 5 years	1969	
ARNE RUDOLF NIELSEN(2)(3)(4)(6) Calgary, Alberta	55	President and Chief Executive Officer of Canadian Superior, Calgary, Alberta since 1978; Executive Vice President of Canadian Superior from November 1977 to January 1978; President and General Manager of Mobil Oil Canada Ltd. (petroleum producer and refiner) for more than 5 years prior to November 1977	1978	Superior
JAMES BOTHERELL REDPATH(2)(3) Toronto, Ontario	73	Retired since 1978; prior thereto President of Dome Mines Limited, Campbell Red Lake Mines Limited and Sigma Mines (Quebec) Limited and Chairman of Canada Tungsten Mining Corporation Limited	1978	Dome Mines Limited
JOSEPH EDMONDSON REID(2)(4)(6) Houston, Texas	52	President and Chief Executive Officer of Superior, Houston, Texas since 1978; Senior Vice President of Superior from 1974 to 1978	1979	Superior Falconbridge

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Principal Occupation and Business Experience</u>	<u>Year</u>	<u>Directorships of Certain Publicly Held Corporations (1)</u>
PHILIP JOSEPH URSO Calgary, Alberta	49	President and Chief Operating Officer of the Corporation since January 1981; Vice- President Operations and Development of Fording Coal from 1978 to January 1981; General Manager Fording Coal and Canpac Minerals from 1974 to 1978	—	—

- (1) Includes only corporations whose securities are registered under the United States Securities Exchange Act of 1934.
- (2) Member of the Executive Committee.
- (3) Member of the Audit Committee.
- (4) Member of the Compensation Committee.
- (5) Chairman of the Board and Chief Executive Officer.
- (6) Also a director of CSO.

SHARES BENEFICIALLY OWNED, CONTROLLED OR DIRECTED

The following table indicates the number (and percentage of the class) of shares of the Corporation and Superior beneficially owned, controlled or directed by directors and nominees for election as directors of the Corporation and by all directors and officers as a group. Under rules of the SEC, a person who directly or indirectly has or shares voting or investment power with respect to a security is considered to be a beneficial owner of the security. All share ownership reflected in the table below refers to sole voting and investment power, however, certain persons lack voting and investment power as to shares held for their account in employee benefit plans.

<u>Name or Group</u>	<u>Corporation</u>	<u>Percentage of Class</u>	<u>Superior</u>	<u>Percentage of Class</u>
C. L. BARNEY(1).....	nil	nil	7,960	(2)
M. A. COOPER.....	4,020	(2)	8,755	(2)
E. C. MANNING.....	nil	nil	nil	nil
A. R. NIELSEN.....	nil	nil	nil	nil
J. B. REDPATH.....	750	(2)	nil	nil
J. E. REID(3).....	nil	nil	22,907	(2)
P. J. URSO.....	nil	nil	nil	nil
All directors and officers as a group (15 persons, including those listed above)(4).....	12,745	(2)	42,803	(2)

- (1) Includes options to purchase 2,500 shares of common stock of Superior.
- (2) The directors and officers of the Corporation own less than 1% of the shares of the Corporation and Superior.
- (3) Includes options to purchase 17,000 shares of common stock of Superior.
- (4) Includes options to purchase 5,875 Common Shares and 20,750 shares of common stock of Superior.

This information as to shares, not being within the knowledge of the management, is based upon data furnished to the Corporation by or on behalf of the persons referred to above as of March 16, 1981.

MEETINGS

The board of directors met five times during 1980. The board of the Corporation has established an Executive Committee, a Compensation Committee and an Audit Committee. The Corporation does not have a nominating committee or a committee performing a similar function. Membership of the directors on each of the Committees is indicated on the list of nominees for election shown above.

The Audit Committee is required to review the Corporation's financial statements prior to submission to the board of directors for approval. During 1980 the Audit Committee held two meetings. The Executive Committee meets on call and may exercise all the powers of the board of directors to the extent permitted by law. During 1980 the Executive Committee held one meeting. The Compensation Committee meets from time to time to review and consider the remuneration payable to directors, officers and key employees of the Corporation and to present recommendations to the board of directors which is responsible for fixing the remuneration of these persons. The Committee also administers the 1980 Executive and Key Employees Share Option Plan. The Compensation Committee met on two occasions during 1980.

During the year all directors and members of the Committees attended all of the respective meetings except Mr. Manning who was absent from two meetings of the directors and one meeting of the Compensation Committee.

DIRECTORS' AND OFFICERS' REMUNERATION FROM THE CORPORATION AND ITS SUBSIDIARIES

Each director of the Corporation is paid \$7,500 per annum and may also be reimbursed for out-of-pocket expenses incurred in attending meetings of the directors. No compensation is payable for membership on or attendance at meetings of committees of the board.

The following table sets forth all remuneration paid by the Corporation and its subsidiaries in respect of the Corporation's last completed financial year to:

- (a) the directors of the Corporation in their capacities as directors of the Corporation and any of its subsidiaries; and
- (b) the officers of the Corporation who received in their capacity as officers or employees of the Corporation and any of its subsidiaries aggregate remuneration in excess of \$40,000.

Nature of Remuneration Earned

	Directors' fees	Salaries	Bonuses	Non-accountable expense all.	Others (1)	Total
REMUNERATION OF DIRECTORS						
(A) Number of directors: 7						
(B) Body Corporate incurring the expense McIntyre Mines Limited	\$45,375	\$ 35,070				\$ 80,445
REMUNERATION OF OFFICERS						
(A) Number of officers: 8						
(B) Body Corporate incurring the expense McIntyre Mines Limited		666,107	\$35,563		\$13,124	714,794
TOTALS	\$45,375	\$701,177	\$35,563		\$13,124	\$795,239

- (1) Includes the amount of taxable benefits received under the Corporation's Home Mortgage Assistance Plan and amounts reimbursed to CSO by the Corporation under a CSO employee savings plan in which an officer of the Corporation participates. See "Common Officers and Directors".

The following table sets forth, using the format and definitions required by the SEC, all remuneration paid or accrued for services in all capacities to the Corporation and its consolidated subsidiaries during 1980 to each of the five most highly compensated directors and executive officers and to all directors and officers as a group.

Name of individual or number of persons in group	Capacities in which served	Cash and cash-equivalent forms of remuneration		
		Salaries, fees, directors' fees, commissions, bonuses	Securities or property, insurance benefits or reimbursement, personal benefits	Aggregate of contingent forms of remuneration (1)
E. J. Bethell	Executive Vice President	\$ 87,973	\$ 4,020	—
P. D. Bushong, Jr.	Senior Vice President since February 1980 (resigned effective January 1, 1981)	188,400	1,112	—
J. J. Crowhurst	Vice President Operations (resigned effective October 31, 1980)	92,112	108,777(2)(3)	—
A. Feldmeyer(4)	President (resigned effective January 1, 1980)	100,000(4)	—	—
B. A. Thomas II	Senior Vice President since February 1980 (resigned effective March 13, 1981)	143,740	7,992(2)	—
All Directors and Officers as a group (15 persons including those listed)		782,115	167,518	—

- (1) The Corporation's Retirement Plan for Salaried Employees ("Retirement Plan") provides for fixed benefits in the event of retirement at a specified age based on the final three-year average salary level, and contributions thereunder by the Corporation are on an actuarial basis. Members also make contributions under the Retirement Plan based on salary paid by the Corporation which are used to purchase retirement income. No amounts were contributed by the Corporation to the Retirement Plan in the year ended December 31, 1980.
- (2) Includes estimated benefits arising from mortgage loans to assist in relocation of employees.
- (3) Includes gains realized on the difference between the exercise price of options on Common Shares and the market value of such shares on the dates the options were exercised. See the table under "Stock Option Plans" below.
- (4) In July 1980 a retirement allowance of \$100,000 was paid to Mr. Feldmeyer.

STOCK OPTION PLANS

The Corporation has set aside 175,000 Common Shares under an Executive and Key Employee Stock Option Plan ("1958 Plan") for its executives and key employees which was established with the approval of its shareholders in 1958. The exercise price of each option granted is not less than 95% of the average market value of Common Shares on the date the option is granted. The Corporation also has a 1980 Executive and Key Employees Share Option Plan ("1980 Plan") under which directors, on the advice of the Compensation Committee, may grant to certain executives and key employees options for terms of up to five years to purchase up to an aggregate of 150,000 Common Shares for a price of not less than 90% of the average market value of such shares on the trading date next preceding the date on which the option is granted. The 1980 Plan also provides for stock appreciation rights in tandem with the options. The 1980 Plan was adopted following approval by the shareholders of the Corporation on April 14, 1980.

With respect to both the 1958 Plan and the 1980 Plan, the following table shows (i) the amount of options granted since December 31, 1979, (ii) the average per share exercise price, (iii) the net value of shares (market value less any exercise price) or cash realized on the exercise of the options, (iv) options exercised since December 31, 1979, (v) the number of Common Shares subject to unexercised options as of March 16, 1981, and (vi) the potential unrealized value as of March 16, 1981, as to each director or executive officer of the Corporation whose aggregate remuneration in the year ended December 31, 1980 exceeded U.S. \$50,000 and as to all officers and directors as a group.

<u>Common Shares</u>	<u>J.J. Crowhurst (1)</u>	<u>E.J. Bethell</u>	<u>All Directors and Officers as a Group (15 persons including those listed)</u>
Options granted January 1, 1980 to March 16, 1981			
Number of Shares			
1958 Plan.....	—	—	—
1980 Plan.....	1,000(1)	1,000	12,500
Average per Share Exercise Price(2)			
1958 Plan.....	—	—	—
1980 Plan.....	\$ 56.00	\$ 56.00	\$ 58.93
Options exercised January 1, 1980 to March 16, 1981(3)			
Number of Shares.....	4,500	—	5,600
Net value realized in cash (market value less exercise price).....	\$188,415	—	\$234,032
Number of Shares sold.....	2,500	—	3,500
Unexercised Options at March 16, 1981			
Number of Shares			
1958 Plan.....	—	4,500	5,500
1980 Plan.....	—	1,000	11,500
Potential (unrealized) value (market value less exercise price).			
1958 Plan.....	—	\$102,270	\$117,290
1980 Plan.....	—	\$ 11,750	\$ 75,125

- (1) Mr. Crowhurst resigned as an officer of the Corporation effective October 31, 1980 whereupon the option granted to him under the 1980 Plan expired.
- (2) With respect to the 1958 Plan, represents 95% of the average market value on the date of grant and, with respect to the 1980 Plan, represents 90% of the average market value on the trading date preceding the date of grant.
- (3) As of March 16, 1981, no options granted under the 1980 Plan had been exercised.
- (4) Determined as the mean between the lowest and highest prices at which Common Shares were traded on The Toronto Stock Exchange as of the date of determination.

The following two tables set forth certain additional particulars concerning the granting of options to directors and officers of the Corporation and the exercise of options pursuant to the 1958 Plan and the 1980 Plan during the period January 1, 1980 to March 16, 1981.

OPTIONS GRANTED

Date of Grant	Number of Common Shares	Option Price Per Share	Expiration Date of Option	Price Range During 30 Day Period Preceding Date of Grant (1)
April 14, 1980.....	2,500	\$56.00	April 14, 1984	\$78 to \$46½
January 7, 1981.....	10,000	\$62.00	January 6, 1984	\$72 to \$62

(1) Highest and lowest prices at which the Common Shares were traded on The Toronto Stock Exchange.

OPTIONS EXERCISED

Number of Common Shares Purchased	Total Purchase Price	Price Range During 30 Day Period Preceding Date of Purchase (1)
2,000	\$50,360	\$81 to \$65
2,500	\$76,725	\$69½ to \$64

(1) Highest and lowest prices at which the Common Shares were traded on The Toronto Stock Exchange.

In addition, as of March 16, 1981, other employees of the Corporation as a group held options outstanding under the 1958 Plan and the 1980 Plan for 8,000 Common Shares at average option prices per Common Share of \$56.00.

RETIREMENT PLAN

For many years the Corporation has had in effect the Retirement Plan covering its salaried employees, including officers. (Certain employees of the Corporation, who were originally employees of Superior or CSO, participate in the Salaried Retirement Plan of Superior or CSO, and the cost of their participation is borne by the Corporation.) The plan is voluntary and is funded by contributions from both the employee and the Corporation. Contributions are deposited with a corporate trustee. Covered compensation includes only salaries.

Based on the assumption that the Retirement Plan is continued under its existing provisions and subject to the statutory limitations hereinafter described, there are illustrated below the approximate annuities to which employees, including officers, who participate in such Plan for the maximum length of time possible during employment would become entitled upon normal retirement.

Average Annual Salary for Highest 36 Months in Last 120 Months Preceding Retirement	Annual Retirement Income at Age 65 Based on Average Length of Service					
	20 Years	25 Years	30 Years	35 Years	40 Years	45 Years
\$ 25,000	\$ 7,500	\$ 9,375	\$ 11,250	\$ 13,125	\$ 15,000	\$ 16,875
50,000	15,000	18,750	22,500	26,250	30,000	33,750
75,000	22,500	28,125	33,750	39,375	40,000	50,625
100,000	30,000	37,500	45,000	52,500	60,000	60,000*
125,000	37,500	46,875	56,250	60,000*	60,000*	60,000*
150,000	45,000	56,250	60,000*	60,000*	60,000*	60,000*
175,000	52,500	60,000*	60,000*	60,000*	60,000*	60,000*
200,000	60,000	60,000*	60,000*	60,000*	60,000*	60,000*

*The maximum pension permitted by the plan and Canadian government regulation is \$60,000.

Mortgage Loans

In the past, the Corporation has provided financial assistance to certain key employees to acquire homes in connection with their relocation under the Corporation's Home Mortgage Assistance Plan. Fifteen key employees have received mortgage loans totalling \$967,000 (of which \$809,000 was outstanding at March 16, 1981), primarily in conjunction with the move of the Corporation's principal executive office to Calgary, Alberta in January 1980. Mr. J.J. Crowhurst, former Vice President Operations, received from the Corporation a \$150,000 first mortgage

loan, bearing interest at $4\frac{1}{2}\%$ per annum, on his residence in Calgary which was repaid in full when he resigned effective October 31, 1980. Mr. Peter L. Mitchell, Treasurer and Comptroller, has received a second mortgage loan on his residence in Calgary in the amount of \$36,000, which is interest free and must be repaid on a staggered schedule of increasing payments over ten years. At March 16, 1981, the outstanding balance of this loan was \$34,000. Mr. Bennett A. Thomas II, former Senior Vice President, also received a mortgage loan of \$225,000, bearing interest at the rate of $4\frac{1}{2}\%$ per annum, to assist him in purchasing a residence in Calgary after his relocation from Houston in February 1980. As of March 13, 1981 Mr. Thomas resigned as an officer of the Corporation and the outstanding balance of this loan was \$221,000. All of the remaining 12 loans are interest free and must be repaid on a staggered schedule of increasing payments over ten years. All mortgage loans become due and payable upon termination of the employee's employment for any reason or upon sale of the subject property.

Directors' and Officers' Liability Insurance

Pursuant to the permissive provisions of subsection 119(4) of the Canada Business Corporations Act and the by-laws of the Corporation, the Corporation maintains insurance on behalf of its directors and officers against certain liabilities they may incur in their capacities as directors and officers of the Corporation and against the Corporation's liability or election to indemnify its directors and officers in respect of such liabilities. Such insurance provides for maximum payments to the Corporation and its directors and officers of \$10 million per loss subject to a maximum of \$10 million per policy year, with a deductible provision of \$10,000 per occurrence for each director or officer subject to a maximum deductibility of \$30,000 per policy year for all directors and officers as a group and a deductibility of \$100,000 in the aggregate per policy year in respect of the Corporation. The premium presently payable by the Corporation for such insurance is approximately \$25,000 per year. The premiums for the policies are not allocated between directors and officers as separate groups. No portion of the premium is paid by directors or officers.

SELECTION AND APPOINTMENT OF AUDITORS

The board of directors recommends the appointment of the firm of Arthur Andersen & Co. as auditor of the Corporation for the year 1981. That firm was appointed by the board of directors as required by the Act to fill the vacancy created by the resignation of the firm of Price Waterhouse & Co. The engagement of Price Waterhouse & Co. as the Corporation's independent auditor commenced in 1970 and terminated effective October 30, 1980. This change was approved by the board of directors with the concurrence of the members of the Audit Committee all of whom voted to accept the resignation of Price Waterhouse & Co.

In respect of the year ended December 31, 1980, Price Waterhouse & Co. performed audit services that included a review of quarterly financial information. In addition, Price Waterhouse & Co. performed certain non-audit services, the fees for which in aggregate represented 135% of the fees for audit services. These non-audit services included services rendered in connection with a proposed amalgamation of the Corporation with CSO (115%) and consultation on sundry tax matters (20%).

Arthur Andersen & Co. performed audit services in respect of the 1980 financial year that included an examination of the Corporation's consolidated financial statements for inclusion in reports to shareholders and the SEC. Arthur Andersen & Co. also performed certain non-audit services, the aggregate fees for which represented approximately 713% of its fees for audit services. Such non-audit services included staff loaned on labour contract calculations (2%) and sundry tax consultation (15%). In addition, Arthur Andersen & Co. was engaged as a management consultant to implement an accounting and management control system at the Corporation's Smoky River operations and has been paid fees in connection with this project in respect of the year ended December 31, 1980 representing approximately 696% of fees for audit services.

The non-audit services performed by both firms, being consistent with prior practice, were not approved in advance by the Audit Committee or the board of directors.

Representatives of Arthur Andersen & Co. are expected to be present at the meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

CERTAIN TRANSACTIONS AMONG AFFILIATES

During the past years, the Corporation has in the normal course of its business entered into transactions with Superior and Falconbridge in the acquisition and exploration of mining properties in various places. The Corporation's participation ranges up to 33% in these ventures and the cost to the Corporation of such transactions is equal to its proportionate share of the overall cost. Approximately \$1.0 million, \$0.1 million and \$1.3 million were expended by the Corporation toward the payment of its share of the cost of these ventures during 1978, 1979 and 1980, respectively. In addition, the Corporation has entered into an agreement with a wholly owned subsidiary of CSO regarding its hard minerals exploration program.

The Corporation has not issued any of its securities to the public during the preceding five years except for 1,218,491 Common Shares which were issued in December 1979 pursuant to a subscription offering. CSO acquired 862,164 of the Common Shares pursuant to such offering at the subscription price of \$65 per share, including 540,185 and 87,913 Common Shares upon assignments of the subscription rights of Superior and Falconbridge, respectively.

COMMON OFFICERS AND DIRECTORS

Various officers and directors of Superior, CSO, Falconbridge and the Corporation hold positions as officers or directors of two or more of such companies. Five of the nine directors of CSO are directors or officers of Superior, including A. R. Nielsen, CSO's Chief Executive Officer, who is a director of both the Corporation and Superior. Four of the 15 directors of Superior (including three who are also directors of CSO) are also among the six directors of the Corporation, and five directors of Superior (including two who are also directors of CSO) are also among the 13 directors of Falconbridge.

Mr. J. E. Reid, President and Chief Executive Officer of Superior, is Chairman of the Board of Falconbridge and a director of both CSO and the Corporation. Mr. C. L. Barney, Senior Vice President and a director of Superior, is Chairman of the Board of both the Corporation and CSO.

Messrs. Bennett A. Thomas II and Paul D. Bushong, Jr. joined the Corporation from Superior in February 1980 as Senior Vice Presidents, though Superior continued to pay their salaries and they also continued to participate in Superior's employee benefit plans, and the Corporation reimbursed Superior for these payments. E. J. Bethell joined the Corporation from CSO in November 1978 as Assistant to the President and was appointed Executive Vice President in April 1979, though CSO has continued to pay his salary and Mr. Bethell has continued his participation in CSO's employee benefit plans. The Corporation has reimbursed CSO for all such payments.

1982 ANNUAL MEETING

It is anticipated that the 1982 annual meeting of shareholders will be held in May 1982 at a time and place to be determined by the directors. Shareholders entitled to vote thereat and who wish to present proposals for consideration at the 1982 annual meeting may do so by submitting the proposal to the Corporation at least 90 days before the anniversary date of the annual meeting of shareholders to which this Circular relates.

The contents and sending of this management proxy circular and proxy statement have been approved by the directors.

WILLIAM M. BONE
Corporate Secretary

Dated: March 16, 1981

A copy of the Corporation's Annual Report to the United States Securities and Exchange Commission on Form 10-K may be obtained without charge by writing to the Corporate Secretary at the Registered Office of the Corporation, Three Calgary Place, 14th Floor, 355 Fourth Avenue S.W., Calgary, Alberta T2P 0J3.

Highlights



(In thousands, except per share data)

	1980	1979	1978
Consolidated earnings (loss)	\$ 35,665	\$ 43,909	\$ (904)
Per share	\$* 9.90	\$* 18.45	\$* (0.38)
Revenue	\$ 115,237	\$ 62,667	\$ 105,270
Working capital provided from operations	\$ 11,296	\$ 6,810	\$ 12,134
Capital expenditures	\$ 11,470	\$ 3,681	\$ 9,325
Working capital at year-end	\$ 41,264	\$ 31,156	\$ 11,003
Long-term debt at year-end	\$ 4,594	\$ 4,712	\$ 68,944
Sales volume (long tons)	1,684	916	1,527
Production (long tons)	1,470	1,044	1,316

* The weighted average number of shares used in calculation of earnings per share were 3,600,037, 2,379,733, and 2,369,213 for 1980, 1979 and 1978 respectively. In December 1979, McIntyre issued 1,218,491 common shares by way of a rights offering to its shareholders.



To Our Shareholders

In 1980 McIntyre again experienced disappointing results from the operations at its Smoky River mines. A loss from operations of \$3.0 million was recorded in 1980 compared to a loss of \$2.7 million in 1979. On a consolidated basis, including the earnings of Falconbridge Nickel Mines Limited and Madeleine Mines Ltd., your Company reported net income of \$35.7 million or \$9.90* per share down from \$43.9 million or \$18.45* per share in 1979. Earnings of Falconbridge were down in 1980 due to softening in demand for its products while earnings of Madeleine were up slightly from the previous year.

** The average number of shares outstanding was increased by 1,218,491 common shares issued by way of a rights offering in December of 1979.*

Coal sales in 1980 showed considerable improvement. Sales volumes of 1,684,000 long tons of clean coal contributed revenues of \$115.2 million compared to \$62.7 million from sales of 916,000 long tons in 1979. This increase in sales volume and revenue was primarily the result of increased sales to our Japanese customers and additional spot sales to other customers. Operating costs increased in 1980 to \$101.6 million from \$45.0 million in 1979 due to higher sales volumes and increased labor materials and transportation costs.

In November, 1980 a coal sales agreement with our Japanese customers was negotiated for two years beginning April 1, 1981. The volume to be delivered under this agreement is 1,224,000 long tons of clean coal per year at a price of \$74 Canadian during the first year, increasing to \$78.50 during the second year.

In addition, during 1980 McIntyre reached agreement with a consortium of four Brazilian steel mills for the delivery of 3,260,000 metric tons of coal. Of this amount 500,000 tons will be delivered from January 1, 1982 to March 31, 1983, following which 460,000 tons per annum will then be delivered to March 31, 1989. Definitive contracts are to be concluded by the end of June, 1981. This is the first long term contract McIntyre has entered into with customers outside Japan and is a result of an intensive two year effort to diversify our markets.

Mining operations during 1980 began slowly with production curtailments during January, 1980 due to transportation disruptions between Smoky River and Neptune Terminals at Vancouver. The pace picked up rapidly in March with the reopening of the Second Narrows Bridge and 2,329,000 long tons of raw coal were ultimately produced in 1980, up from 1,755,000 long tons in 1979. Raw coal production from the surface mines was 1,264,000 long tons while the underground mines contributed 1,065,000 long tons.

Capital and exploration expenditures during 1980 totalled \$12.8 million up from \$4.0 million in 1979. Mine development expenditures in 1980 of \$2.0 million included the completion of development of mines 9A-4 and 5-4, and the commencement of mine 9C-4, which will begin production in the second quarter of 1981. Exploration expenditures increased to \$1.4 million in 1980 from \$0.3 million in 1979 due primarily to stepped up activity on the Monkman Pass coal property in which McIntyre has a 16⅔% interest.

McIntyre and a consortium of other users acquired Neptune Terminals of North Vancouver, B.C. and all related facilities in October, 1980. The cost of McIntyre's 20% interest in the consortium was \$885,000. The Terminal is to be operated on a non-profit basis for the benefit of the owners.

During 1980, Falconbridge Nickel Mines Limited, in which McIntyre owns a 37.1% equity interest, recorded earnings of \$109.1 million. Included in the earnings was an extraordinary gain of \$37.7 million on the sale of the capital stock of Canadian Superior Oil Ltd., owned by Falconbridge. McIntyre's equity portion of the earnings of Falconbridge amounted to \$38.1 million, down from \$46.3 million in 1979.

Madeleine Mines, in which McIntyre owns a 36.4% equity interest, had earnings of \$1.8 million in 1980. McIntyre's share of these earnings was \$0.6 million up slightly from \$0.4 million in 1979.

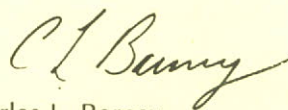
In January, 1981 McIntyre announced the appointment of Mr. Philip J. Urso as President and Chief Operating Officer. Mr. Urso comes to McIntyre with an extensive background in Canadian coal mining operations.

In October, 1980 Mr. J.J. Crowhurst, Vice President, Operations, retired after four years with McIntyre. In November, 1980 Mr. W.M. Bone was appointed Corporate Secretary and General Counsel, and Mr. J.P.L. Bacharach was appointed Director, Operations in January, 1981.

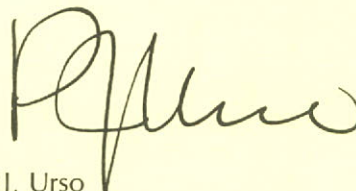
McIntyre's excellent safety record suffered a severe setback on February 18, 1980 when four miners were killed by a roof collapse in the Reiff Terrace #2R-4 mine. An enquiry was carried out by the Provincial Government, and the report will be available in 1981. Meanwhile, the company is undertaking an intensive safety campaign with special emphasis on the underground mines.

Assured long term markets for Smoky River coal, resulting from a successful marketing campaign, have enabled management to commence a program of long term planning for a stable production level. Efforts are presently underway to enhance the engineering and management capabilities within the Company, to improve planning, to evaluate new and improved equipment and processes and to achieve more efficient extraction. In this way, we will be lowering costs over time and also be in a position to take advantage of increased sales and production opportunities as they arise.

Progress was made in 1980 toward our goals through the continued hard work of our employees, support of the Alberta Government and confidence demonstrated by our customers. Management is grateful for their support. In 1981 we hope to achieve better results with continued commitment from these people.



Charles L. Barney
Chairman of the Board and
Chief Executive Officer

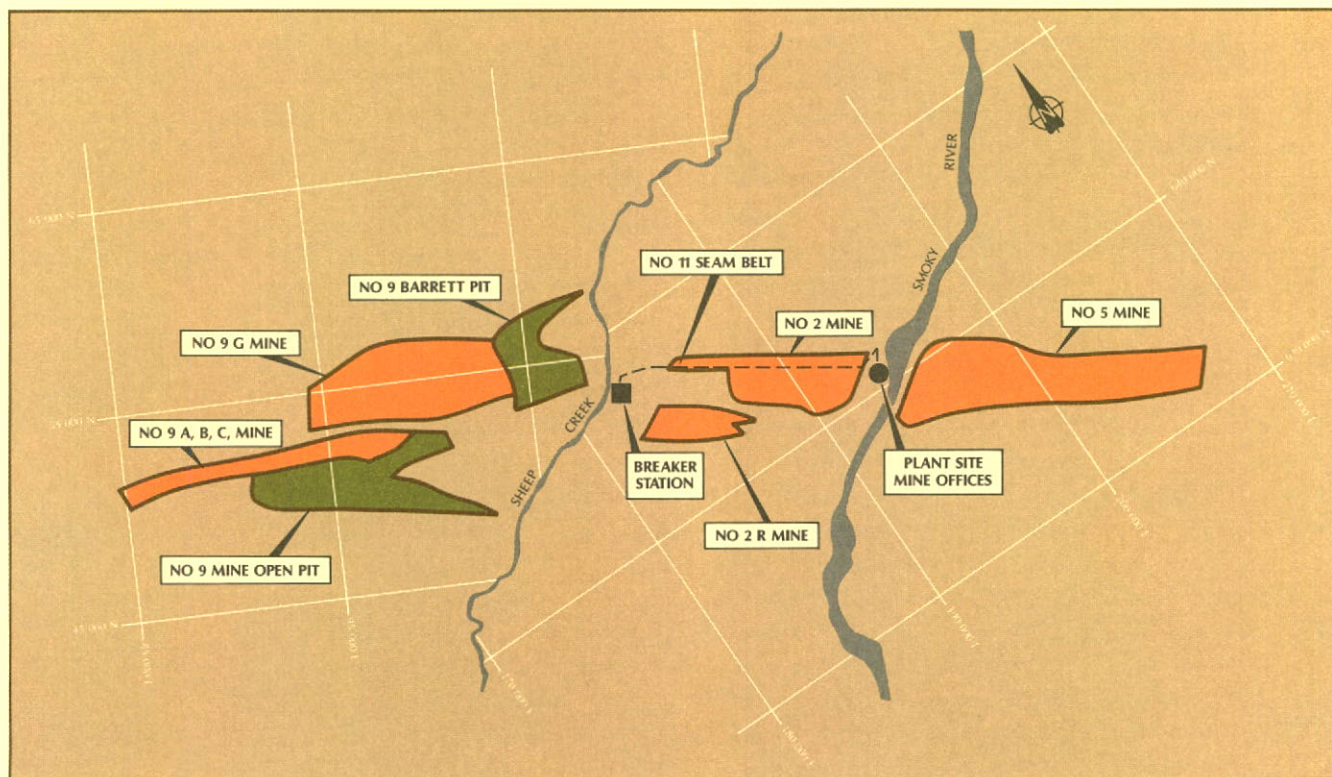


P.J. Urso
President and
Chief Operating Officer

Operations Review

Production of raw metallurgical coal during 1980 totalled 2,329,000 long tons or 33% over the level of 1979. Production from the surface mine of 1,264,000 long tons of raw coal was more than

double the 1979 level while production from the underground mines of 1,065,000 long tons of raw coal was down slightly from 1979.



Underground Mines:

Mine 2R-4

The 2R-4 mine, located on the southeast side of Sheep Creek and producing from the No. 4 seam, was the main underground producer at Smoky River during 1980. Production from this mine, which was in the depillaring phase throughout 1980, totalled 525,000 long tons of raw coal or 49% of the total underground production. This mine was closed prematurely in October, 1980 due to a fire which resulted in the abandonment of 97,000 long tons of clean coal.

Mine 2R-11

The 2R-11 mine is located adjacent to the 2R-4 mine and produces coal from the No. 11 seam. This mine was reactivated in October, 1980 and

produced 77,000 long tons of raw coal. Operations during 1981 will include both development and depillaring activity as this mine is brought up to full production.

Mine 2-11

This mine is located between the Sheep Creek and Smoky River Valleys and is the conduit for the tunnel conveyor roadways which connect the Sheep Creek mines with the coal preparation plant in the Smoky River Valley. A combination of development and depillaring resulted in 239,000 long tons of raw coal production during 1980. All activity during the last three quarters of 1980 was focused on developing a new mining district which will be completed with depillaring commencing in the third quarter of 1981.



Placing Roof Bolt in Underground Mine

Replacing teeth on continuous miner in underground mine.

Mine 5-4

This mine is located on the southeast side of the Smoky River Valley opposite the coal preparation plant. The mine operated from mid-1969 to February, 1973 when operations were suspended. In February, 1979 the mine was reopened and a program of rehabilitation has been in progress since that time. Drivages have been established through rehabilitated roadways into previously unworked coal areas and 115,000 long tons of raw coal were produced during 1980. Operations during 1981 will see continued development of new coal areas as roadways are driven forward beyond the old workings.

Mine 9A-4

This mine was opened in 1979 and is located adjacent to the surface mine with the portals

having been driven in the high wall of the surface center pit. Development work proceeded on the two main roadways during 1980 and 109,000 long tons of raw coal were produced. During 1981 development of the two mining districts will be completed and depillaring should commence during the third quarter in 1981.

Mine 9G-4

Development of this new mine commenced late in 1980 with two entrances being established and two rock declines driven downward to gain access to No. 4 seam reserves. Production in this mine is expected to commence late in 1981 from the No. 4 seam and experimental drivages in the No. 10 seam to test the feasibility of long wall mining are to be made.



Overburden Removal at #9 Surface Mine

No. 9 Surface Mine

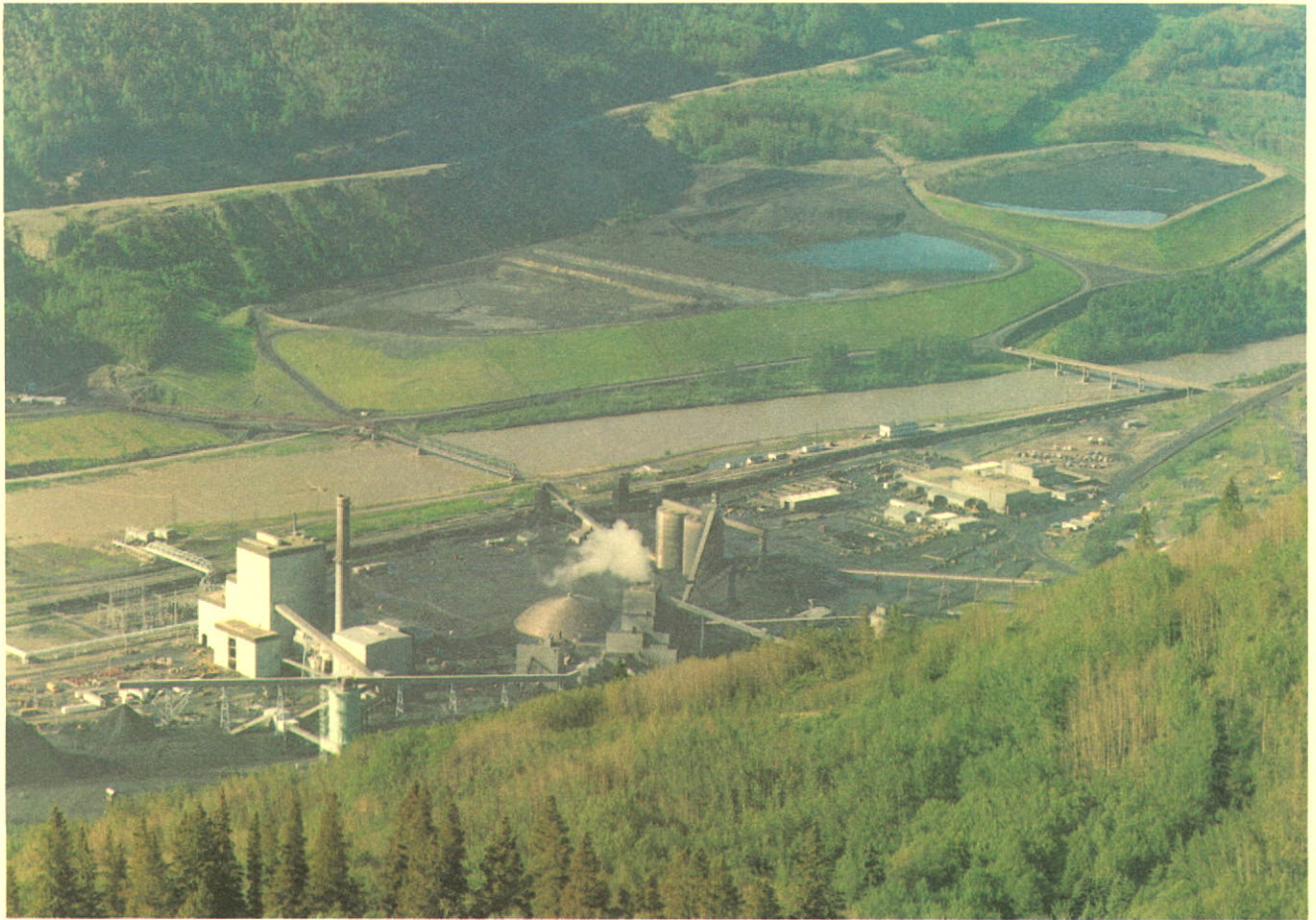
The No. 9 surface mine is located on the north side of Sheep Creek approximately five miles from the entrance to the tunnel conveyor in No. 2-11 mine which transports the coal to the preparation plant. Production by the conventional shovel-truck mining system is being employed to mine Nos. 4 and 10 seam reserves.

Activity at the surface mine increased significantly during 1980 as demand for Smoky River coal increased. Over 1,264,000 long tons of raw coal were produced compared to 628,000 long tons raw in 1979. The workforce at the surface mine was increased by approximately 76% throughout the year and production levels were at near capacity by year end. Approximately 11,500,000 bank cubic yards of material were moved during 1980 and coal was produced at an average stripping ratio of 9 bank cubic yard of waste per ton of raw coal.

In late December an agreement was reached with the United Steelworkers of America, the Union representing the labor force at Smoky River, to implement a seven day per week, 24 hour per day work schedule at the surface mine. This shift change should allow higher production levels and better utilization of existing equipment and facilities in 1981.

Coal Preparation Plant

The coal preparation plant is located in the Smoky River Valley adjacent to the H.E. Milner generating station owned and operated by Alberta Power. Coal is cleaned by heavy-medium cyclones and froth flotation after which it is mechanically and thermally dried prior to shipment to Neptune Terminals in North Vancouver. During 1980 the preparation plant processed over 2,329,000 long tons of raw coal to recover 1,470,000 long tons of clean coal at an average yield of 63.1%.



Smoky River Coal Plant Site

Neptune Bulk Terminals (Canada) Limited

During 1980 McIntyre joined a consortium which purchased Neptune Bulk Terminals Limited from Federal Industries Limited. The consortium includes all of the commodity users of the Terminal with coal representing approximately 60% of the Terminal's volume. McIntyre has a 20% ownership of the new company, Neptune Bulk Terminals (Canada) Limited, and is represented on the Board of Directors. Participation in the consortium should allow McIntyre flexibility and low cost port facilities.

McIntyre shipped 1,684,002 long tons of metallurgical coal through the terminal in 1980 and ended the year with an inventory of 70,000 long tons at Neptune.

Exploration

Exploration expenditures during 1980 totalled \$1.4 million compared to \$0.3 million in 1979. The increase was primarily the result of stepped up

activity on the Monkman Pass Coal Project and included a payment for past expenditures made by Canadian Superior Oil Ltd. on behalf of McIntyre Mines.

Monkman Pass Coal Project, British Columbia

McIntyre Mines Limited holds a 16.7% interest in the Monkman Pass Coal Project. The remaining interest is held by Canadian Superior Oil Ltd. (33.3%) and Petro-Canada (50%), who is the operator of the project.

The Monkman Pass Project is one of the most promising of the properties in northeastern British Columbia. The property consists of leases covering approximately 37,400 hectares along a 75 kilometre stretch of Rocky Mountain foothills, following the northwest/southeast trend of the coal-bearing strata. Exploration has been carried out since 1975 with emphasis on the northern end of the property, where medium volatile bituminous coal has been demonstrated to exist in substantial quantity.



Loading Overburden at #9 Surface Mine

The Stage I preliminary environmental assessment document was submitted to the Environmental and Land Use Committee (ELUC) in July, 1979. The Stage II document, a detailed impact assessment, is expected to be filed in 1981.

Copton Coal Property, Alberta

Activity on the property remained at a relatively low level throughout the year. Results of washability and petrographic tests as well as coking tests by Japanese and Canadian steel companies indicate that alternative uses for this coal to that of a coking coal should be explored. A study will be conducted in 1981 to assess the development of the Copton property as a producer of thermal coal and the market scope for the thermal coal product.

Golden Offsets, Ontario

McIntyre Mines has a 20% interest in a gold property controlled by Golden Offsets Mines Limited located in Tully Township in Northern Ontario. A drilling program has been completed with positive results and the property will be brought into production in the near future.

Effective January 1, 1979, McIntyre and Canadian Superior Exploration entered into an agreement promoting further participation by Canadian Superior in several exploration projects in which McIntyre has an interest. Under this agreement, Canadian Superior is entitled, on a project by project basis, to earn up to a 50% interest by matching previous expenditures made by McIntyre. The status of these projects is as follows:

Tasminex Tungsten Prospect, Tasmania

General exploration and drilling continued during 1980. A feasibility study was completed and a report was prepared on the property. McIntyre and Canadian Superior are evaluating the results to determine their participation in 1981.

Doyon Joint Venture, Alaska

A surface mapping and prospecting project was completed on the coal deposit during 1980. A drilling program will be carried out in 1981 to test the quality and continuity of this thermal coal prospect. A minimum work program is planned for the porphyry molybdenum project in 1981.

Asbestos Project, Alaska

Participation in this asbestos prospect was discontinued in 1980.

Craig Joint Venture, Yukon

The diamond drilling program was completed in 1980 with disappointing results. No further exploration activities are anticipated.

Bretz Prospect, Oregon

The results of the drilling program outlined a zone of uranium mineralization that is uneconomic at the present time. Assessment work will be done to keep the prospect in good standing.

Ruth Prospect, British Columbia

A minimum mapping and sampling program was carried out in 1980 to maintain the property.



Coal Handling Facilities at Neptune Bulk Terminals (Canada) Ltd.

Marketing

During 1980, McIntyre sold 1,684,000 tons of its coal, an increase of approximately 84% over coal sales for the year 1979.

The principal market for McIntyre's production continues to be the Japanese steel industry. During the year, McIntyre was in a position to take advantage of disruptions to Japan's coal supplies from other sources to supply 430,000 tons to Japan in excess of its basic contract. In November, McIntyre concluded an agreement with the Japanese to supply 1,224,000 tons of coal in each of the two years commencing on April 1, 1981 and April 1, 1982 respectively.

The major effort, commenced by McIntyre in 1979, to secure markets for its coal outside Japan paid

significant dividends in 1980. A total of 337,000 tons of coal was sold to customers in Brazil, Argentina, Eastern Canada, the Republic of Korea and Taiwan.

In August, a contract was signed with a consortium of Brazilian steel mills providing for McIntyre to commence in January 1982, delivery of approximately 460,000 tons per year of coal to that country for a seven year period.

In spite of the generally depressed state of the steel industry worldwide, 1980 has seen a strong demand for coking coal, which is likely to continue. McIntyre foresees no difficulty in maintaining sales of coal at a level which will ensure that the mine operates at full capacity for the foreseeable future.

Falconbridge Nickel Mines Limited



*Surface Facilities of Falconbridge's
Westfrob Mining Division
Located in the Queen Charlotte Islands
of British Columbia.*

In 1980 Falconbridge recorded the second highest consolidated earnings in its history. These results were particularly gratifying because they were achieved in spite of the unfavourable impact of inflation on operating costs, increased exploration and development expenses, and a sudden downturn in metal markets that began in April and continued throughout the balance of the year. Consolidated earnings were \$109,122,000 including an extraordinary credit of \$37,700,000 resulting from the acceptance of a public offer by The Superior Oil Company to purchase all of the capital stock of Canadian Superior Oil Ltd. In 1979, consolidated earnings were \$130,561,000 including an extraordinary credit of \$20,000,000 due to a deferred tax credit arising from prior years' losses.

The strong improvement in nickel markets that helped the company to achieve record earnings in 1979 was not sustained in 1980. Sales of nickel in all forms by Falconbridge during 1980, including nickel refined and delivered on a commission basis, were 94,338,000 pounds compared with 137,277,000 pounds in 1979. This significant decrease in shipments reflected the sharp recession in the United States, beginning in the second

quarter, and the subsequent decline in economic activity in Europe and Japan during the second half of the year. Moreover, while nickel shipments were decreasing, production of nickel within the non-Communist world was increased by about 15 per cent. As a result, producer inventories of nickel come to approximately 400 million pounds at year end. Falconbridge inventory of nickel in all forms increased by year end to 45,833,000 pounds from 27,217,000 pounds at the end of 1979. With no substantial improvement in the economy anticipated before the second half of 1981, nickel demand is expected to remain at about current levels and then increase in the latter part of the year.

The average selling price per pound received by Falconbridge for refined nickel products in 1980 was U.S. \$3.25 compared with U.S. \$2.31 in 1979. The average price per pound received for ferronickel products in 1980 was U.S. \$3.18 compared with U.S. \$2.41 in 1979.

In November, 1980, a temporary six per cent discount on all nickel orders placed for the first quarter of 1981 was adopted by the major producers. Although this discount was rescinded

effective February 28, 1981, it continued to apply on orders received before that date for delivery before June 30, 1981.

At Sudbury Operations, nickel production was increased to about 70 per cent of capacity.

The Falconbridge, East Lockerby, Onaping and Strathcona Mines were in operation throughout the year, and North Mine was re-activated during the third quarter. Development continued at the Fraser Mine, with production scheduled to begin in 1981. A new circuit was installed in the Strathcona Mill for the production of a high-grade copper concentrate commencing in December, 1980 and an agreement was concluded for the treatment of the concentrate and refining of the copper in Ontario. The second roaster-electric furnace in the smelter was put on line in January, 1980. There were 3,886 employees at year end, an increase of 244 over the 1979 level.

The integrated nickel operations earnings of \$57,372,000 in 1980 were 8 per cent lower than in 1979, reflecting a 36 per cent lower volume of nickel sales and increased costs, partially offset by the impact of a higher nickel selling price and increase in the volume of copper sales.

Falconbridge Dominicana, C. por A. incurred a loss of U.S. \$8,578,000 in 1980 compared with a profit of U.S. \$8,572,000 in 1979. Costs were sharply higher and demand for ferronickel weakened dramatically late in the second quarter of the year. In order to maintain inventories at reasonable levels it was necessary to suspend production operations from August 1 to December 31, 1980. Production was resumed in January, 1981, by which time inventories of ferronickel had approached normal operating levels. Total sales of ferronickel to Falconbridge Nickel Mines Limited in 1980 were 36,491,000 pounds of contained nickel compared with 54,130,000 pounds in 1979. As a result of reduced shipments of ferronickel, the company required additional funding during 1980 in the amount of U.S. \$14,223,000 which, pursuant to its financing agreement, was provided by Falconbridge Nickel Mines Limited and the other project sponsor.

Further financial support from these sources will be required in 1981. The financing agreements require

Falconbridge to provide 60 per cent of the funds required by Falconbridge Dominicana, C. por A. which it is not able to generate from operations.

The earnings of \$30,333,000 by Corporation Falconbridge Copper (formerly Falconbridge Copper Limited) in 1980 were 35 per cent lower than in 1979. The main factors in this decrease were lower metal production, greater operating and exploration expenditures, the transition to lower grade ore at Corbet Mine compared with that at Millenbach Mine, and closure of the Sturgeon Lake Mine, all of which were partly offset by higher prices for gold and copper.

Madeleine Mines Limited

In 1980, Madeleine earned \$1.8 million, up from \$0.9 million in 1979. Mine operations resumed on July 2, 1979 after being suspended since November, 1976. Production in 1980 was 10,941,000 pounds of copper and 87,000 ounces of silver from 622,500 tons of ore. Copper grade averaged .94% and mill recovery was 94%. The mill operated at full capacity throughout the year. Copper concentrates are sold under an agreement with Noranda Mines Limited and trucked to Noranda's smelter at Murdochville, Quebec.

The first quarter of 1980 saw a significant surge in the prices of copper and silver, which reached approximately \$1.67 per pound and \$56.00 per ounce, respectively. However, prices declined during the remainder of the year. The average prices realized by Madeleine were \$1.14 per pound of copper and \$23.29 per ounce of silver.

During 1980, underground and surface exploration programs were conducted on the property. The underground program produced disappointing results and will not be continued in 1981. However, trenching in late fall uncovered an area of oxidized mineralization on the surface. This area, along with several geological anomalies occurring elsewhere on the property, will be drilled in the spring of 1981 as soon as weather conditions permit.

MCINTYRE MINES

Consolidated Statements of Income

(in thousands of Canadian dollars, except per share data)

	Year ended December 31		
	1980	1979	1978
Revenue:	\$115,237	\$ 62,667	\$105,270
Cost of Sales:			
Operating costs	101,599	44,958	76,429
Depreciation	9,309	9,005	9,083
Depletion	4,032	1,909	1,945
Reclamation	3,130	1,345	232
Coal royalties	24	442	4,118
	<u>118,094</u>	<u>57,659</u>	<u>91,807</u>
Gross Profit	(2,857)	5,008	13,463
Corporate Expenses (Income)			
Administration	5,085	1,504	2,000
Exploration	1,353	333	4,279
Interest	(3,679)	8,620	6,310
Gain on insurance settlement	(2,124)	—	—
Foreign exchange	—	(402)	2,426
	<u>635</u>	<u>10,055</u>	<u>15,015</u>
Loss from operations before income taxes	3,492	5,047	1,552
Deferred income taxes (Note 7)	(500)	(2,306)	712
	<u>2,992</u>	<u>2,741</u>	<u>2,264</u>
Loss from operations	24,662	39,226	(94)
Income before extraordinary items	21,670	36,485	(2,358)
Extraordinary items (Note 8)	13,995	7,424	1,454
	<u>35,665</u>	<u>43,909</u>	<u>(904)</u>
Net income	\$ 35,665	\$ 43,909	\$ (904)
Per share (Note 9):			
Income before extraordinary items	\$ 6.02	\$ 15.33	\$ (0.99)
Extraordinary items	3.88	3.12	0.61
	<u>\$ 9.90</u>	<u>\$ 18.45</u>	<u>\$ (0.38)</u>

The accompanying notes to consolidated financial statements form an integral part of these statements.

MCINTYRE MINES

Consolidated Statements of Retained Earnings

(in thousands of Canadian dollars)

	Year ended December 31		
	<u>1980</u>	<u>1979</u>	<u>1978</u>
Balance - beginning of year	\$182,638	\$138,729	\$140,817
Net income	<u>35,665</u>	<u>43,909</u>	<u>(904)</u>
	218,303	182,638	139,913
Dividends	<u>—</u>	<u>—</u>	<u>1,184</u>
Balance - end of year	<u>\$218,303</u>	<u>\$182,638</u>	<u>\$138,729</u>

The accompanying notes to consolidated financial statements form an integral part of these statements.

MCINTYRE MINES

Consolidated Balance Sheets

(in thousands of Canadian dollars)

ASSETS

	December 31		
	1980	1979	1978
Current:			
Cash and short term investments	\$ 32,318	\$ 12,199	\$ —
Accounts receivable	5,911	4,042	6,156
Inventories of metallurgical coal	6,978	17,687	9,811
Inventories of mine supplies	8,089	7,355	6,191
	<u>53,296</u>	<u>41,283</u>	<u>22,158</u>
Investments (Note 2):			
Falconbridge Nickel Mines Limited	172,817	141,181	100,454
Madeleine Mines Ltd.	630	934	556
Neptune Bulk Terminals (Canada) Limited	885	—	—
	<u>174,332</u>	<u>142,115</u>	<u>101,010</u>
Property, plant and equipment:			
Plant and equipment, at cost (Note 3)	99,048	93,128	91,517
Less: Accumulated depreciation	52,409	45,678	37,067
	<u>46,639</u>	<u>47,450</u>	<u>54,450</u>
Deferred mine development, net of accumulated depletion (Note 4)	42,238	44,262	44,492
	<u>88,877</u>	<u>91,712</u>	<u>98,942</u>
Other (Note 5) :	8,379	9,361	6,869
	<u>\$324,884</u>	<u>\$284,471</u>	<u>\$228,979</u>

The accompanying notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	1980	1979	1978
Current liabilities:			
Accounts payable and accrued liabilities	\$ 11,313	\$ 9,403	\$ 10,501
Current portion of long-term debt	719	724	654
	<u>12,032</u>	<u>10,127</u>	<u>11,155</u>
 Long-term debt (Note 6)	 <u>4,594</u>	 <u>4,712</u>	 <u>68,944</u>
 Accrued Reclamation	 <u>5,991</u>	 <u>2,863</u>	 <u>1,518</u>
 Deferred income taxes (Note 7)	 <u>—</u>	 <u>500</u>	 <u>2,806</u>
 Commitments and contingencies (Note 10)			
 Shareholders' equity:			
Capital stock (Note 11)	87,741	87,408	9,604
 Retained earnings	 <u>218,303</u>	 <u>182,638</u>	 <u>138,729</u>
	<u>306,044</u>	<u>270,046</u>	<u>148,333</u>
 Less: Shares held by affiliate, at cost	 <u>3,777</u>	 <u>3,777</u>	 <u>3,777</u>
	<u>302,267</u>	<u>266,269</u>	<u>144,556</u>
	 <u><u>\$324,884</u></u>	 <u><u>\$284,471</u></u>	 <u><u>\$228,979</u></u>

APPROVED BY THE BOARD

C. J. Barry

Director

A. R. Nelson

Director

statements form an integral part of these statements.

MCINTYRE MINES

Consolidated Statements of Changes in Financial Position

(in thousands of Canadian dollars)

	Year ended December 31		
	1980	1979	1978
Source of working capital:			
Operations	\$ 11,296	\$ 6,810	\$ 12,134
Dividends from affiliates	7,325	5,545	342
Proceeds on insurance settlement	2,805	—	—
Settlement of long-term account receivable	2,000	—	—
Issuance of common shares	333	77,804	—
Other	170	399	—
	<u>23,929</u>	<u>90,558</u>	<u>12,476</u>
Use of working capital:			
Plant and equipment	9,462	2,002	1,723
Deferred mine development	2,008	1,679	7,602
Reduction of long-term debt	118	64,232	4,222
Investment in Neptune Bulk Terminals	885	—	—
Dividends paid to shareholders	—	—	1,184
Other	1,348	2,492	968
	<u>13,821</u>	<u>70,405</u>	<u>15,699</u>
Increase (decrease) in working capital	10,108	20,153	(3,223)
Working capital, beginning of year (Note 19)	<u>31,156</u>	<u>11,003</u>	<u>14,226</u>
Working capital, end of year	\$ 41,264	\$ 31,156	\$ 11,003
Changes in components of working capital:			
Increase (decrease) in current assets –			
Cash and short-term investments	\$ 20,119	\$ 12,199	\$ —
Accounts receivable	1,869	(2,114)	4,417
Inventories of metallurgical coal	(10,709)	7,876	(11,360)
Inventories of mine supplies	734	1,164	(13)
	<u>12,013</u>	<u>19,125</u>	<u>(6,956)</u>
Increase (decrease) in current liabilities –			
Accounts payable and accrued liabilities	1,910	(1,098)	(2,670)
Current portion of long-term debt	(5)	70	(1,063)
	<u>1,905</u>	<u>(1,028)</u>	<u>(3,733)</u>
Increase (decrease) in working capital	\$ 10,108	\$ 20,153	\$ (3,223)

The accompanying notes to consolidated financial statements form an integral part of these statements.

Notes to Consolidated Financial Statements

1. Accounting Policies:

(a) Principles of consolidation -

The consolidated financial statements include the accounts of McIntyre Mines Limited and all companies which are more than 50% owned.

(b) Short term investments -

Short term investments are valued at cost which approximates market value.

(c) Inventories -

The Company values its coal inventory at the lower of cost and net realizable value, cost being determined on the basis of current production cost including depreciation and depletion.

Mine supplies are valued at the lower of cost and net realizable value.

(d) Investments -

Investments in affiliates, Falconbridge Nickel Mines Limited (37.1% equity interest) and Madeleine Mines Ltd. (36.4% equity interest), are accounted for by the equity method which reflects the Company's investment at cost less prior years' writedown plus its interest in undistributed earnings. The above equity interest percentages are as of December 31, 1978, 1979 and 1980.

During 1980 McIntyre purchased a 20% interest in Neptune Bulk Terminals (Canada) Limited. This investment is accounted for on the equity basis.

(e) Property, plant and equipment -

Plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated productive lives, which range from four to twenty years. Maintenance and repair expenditures are expensed as incurred.

Development and preproduction expenditures relating to each mine are capitalized at cost until the mine is brought into production, at which time the costs are amortized on a unit of production basis. Costs which are not considered economically recoverable through mining operations or through sale of reserves are written off.

(f) Reclamation -

The Company provides for the estimated costs of reclaiming acreage which has been disturbed, over the remaining lives of the respective mines, primarily on a unit of production basis.

(g) Exploration -

Exploration costs are charged against earnings as incurred.

(h) Foreign exchange -

Assets and liabilities to be settled in foreign currencies are translated to Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the period.

Unrealized gains or losses are included in earnings in the current year.

2. Investments:

(i) Changes in the Company's investments in affiliates, accounted for by the equity method, are as follows:

	Falconbridge			Madeleine		
				(in thousands of dollars)		
	1980	1979	1978	1980	1979	1978
Investment, beginning of period	\$ 141,181	\$ 100,454	\$ 100,239	\$ 934	\$ 556	\$ 1,163
Equity in earnings:						
Before extraordinary items	24,110	38,848	215	552	378	(265)
Extraordinary items	13,995	7,424	—	—	—	—
	179,286	146,726	100,454	1,486	934	898
Deduct dividends received	6,469	5,545	—	856	—	342
Investment, end of period	\$ 172,817	\$ 141,181	\$ 100,454	\$ 630	\$ 934	\$ 556
Shares held	1,848,414	1,848,414	1,848,414	1,712,208	1,712,208	1,712,208
Market value at December 31	\$ 189,462	\$ 169,130	\$ 60,536	\$ 4,709	\$ 3,219	\$ 993

(ii) Summarized financial information for these two companies is presented below:

	Falconbridge			Madeleine		
				(in thousands of dollars)		
	1980	1979	1978	1980	1979	1978
Current assets	\$ 548,325	\$ 536,366	\$ 352,235	\$ 5,683	\$ 4,914	\$ 862
Property, plant and equipment, net	506,131	470,379	456,514	2,278	2,391	3,360
Other assets	104,638	62,626	59,776	—	—	632
	\$1,159,094	\$1,069,371	\$ 868,525	\$ 7,961	\$ 7,305	\$ 4,854
Current liabilities	\$ 186,206	\$ 155,483	\$ 97,451	\$ 1,659	\$ 942	\$ 80
Long-term liabilities	285,801	287,170	295,003	681	334	—
Deferred income taxes	85,284	41,973	23,687	210	129	—
Minority interest	95,662	88,824	66,183	—	—	—
Shareholders' equity:						
Preference	—	75,000	75,000	—	—	—
Common	506,141	420,921	311,201	5,411	5,900	4,774
	\$1,159,094	\$1,069,371	\$ 868,525	\$ 7,961	\$ 7,305	\$ 4,854
Earnings attributable to common shares:						
Before extraordinary items	\$ 64,947	\$ 104,650	\$ 1,086	\$ 1,864	\$ 662	\$ (618)
Extraordinary items	\$ 37,700	\$ 20,000	\$ —	\$ —	\$ 250	\$ —
Dividends paid on common shares	\$ 17,427	\$ 14,938	\$ —	\$ 2,353	\$ —	\$ 941

3. Plant and equipment:

Plant and equipment are as follows -

	<u>1980</u>	<u>1979</u>	<u>1978</u>
		(in thousands of dollars)	
Underground mine equipment	\$17,979	\$16,278	\$15,248
Surface mine equipment	40,986	40,595	40,429
Coal preparation plant	21,327	20,890	20,835
Other equipment	18,756	15,365	15,005
	<u>99,048</u>	<u>93,128</u>	<u>91,517</u>
Less: Accumulated depreciation	52,409	45,678	37,067
	<u>\$46,639</u>	<u>\$47,450</u>	<u>\$54,450</u>

4. Deferred mine development:

Deferred mine development, net of accumulated depletion, is as follows -

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Producing properties, Smoky River -			
Surface mine	\$20,607	\$21,837	\$23,371
Underground mines	3,933	3,358	2,168
Start-up costs	9,140	9,883	10,385
Non-producing properties -			
Copton (i)	6,923	6,923	6,874
Smoky River	1,635	2,261	1,694
	<u>\$42,238</u>	<u>\$44,262</u>	<u>\$44,492</u>

- (i) Exploration of the Copton properties, which are situated adjacent to the Smoky River property, indicates that substantial quantities of proven coal resources exist. The costs have been capitalized with the intention that they will be amortized by charges against income from future mining operations. Studies are continuing on the feasibility of developing this property as a producer of coking or thermal coal. Profits commensurate with the risks of operating in this location must be indicated before further development to production.

5. Other assets:

Other assets are as follows -

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Houses for sale to employees, at the lower of cost and net realizable value	\$ 5,233	\$ 4,247	\$ 1,480
Employee housing loans	2,224	1,909	2,123
Security deposit	922	762	565
Long-term account receivable	—	2,443	2,701
	<u>\$ 8,379</u>	<u>\$ 9,361</u>	<u>\$ 6,869</u>

6. Long-term debt:

Long-term debt is as follows -

	<u>1980</u>	<u>1979</u>	<u>1978</u>
		(in thousands of dollars)	
Mortgages on houses for sale to employees	\$ 3,286	\$ 2,756	\$ 945
Capital leases	2,027	2,680	3,602
Bank debt	—	—	65,051
	<u>5,313</u>	<u>5,436</u>	<u>69,598</u>
Less current portion	719	724	654
	<u>\$ 4,594</u>	<u>\$ 4,712</u>	<u>\$68,944</u>

7. Income taxes:

Deferred income taxes result from timing differences between accounting and taxable income. The source of these timing differences has been the excess of depreciation and depletion claimed for income taxes over similar items recorded in the financial statements.

At December 31, 1980 the tax basis of property, plant and equipment, including exploration and deferred mine development costs, was approximately \$5,000,000 greater than the net carrying value in the financial statements. In addition, the Company has earned depletion allowances of approximately \$9,000,000 at December 31, 1980 which are available to reduce future taxable income, within the limitations prescribed by the Income Tax Act.

A reconciliation of the amount of income tax computed by applying the statutory Canadian income tax rate to the Company's loss before income taxes is presented below:

	1980	1979	1978
	(in thousands of dollars)		
Loss from operations before income taxes	\$ 3,492	\$ 5,047	\$ 1,552
Statutory tax rate	49%	47%	47%
Loss multiplied by tax rates	\$ 1,711	\$ 2,372	\$ 729
Adjust for tax effect of -			
Resource, inventory and earned depletion allowances	260	639	2,589
Non-claimable expenses	(11)	(208)	(3,020)
Stock issue costs deducted for tax purposes	—	719	—
Compensation for expropriated Crown leases	—	—	(683)
Rate differential in deferred tax drawdown	—	(1,279)	—
Unrecorded deferred tax benefit	(1,460)	—	—
Other	—	(63)	(327)
	<u>\$ 500</u>	<u>\$ 2,306</u>	<u>\$ (712)</u>

No income taxes have been provided on the undistributed earnings of affiliates since dividends received are not subject to tax. The Company has no material foreign tax liability.

8. Extraordinary items:

Extraordinary items consist of the following -

	1980	1979	1978
	(in thousands of dollars)		
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	\$13,995	\$ —	\$ —
Company's equity in reduction in income taxes of Falconbridge arising from its prior years' losses	—	7,424	—
Compensation for expropriated Crown leases	—	—	1,454
	<u>\$13,995</u>	<u>\$ 7,424</u>	<u>\$ 1,454</u>

9. Earnings per share and dividends paid:

For calculation of earnings per share and dividends paid, the number of total shares outstanding has been reduced by McIntyre's proportionate investment in its shares held by an affiliate as follows -

Years	Weighted average total shares outstanding	Deduct proportionate investment in shares held by an affiliate	Number of shares used in calculation of earnings per share and dividends paid
1978	2,434,482	65,269	2,369,213
1979	*2,445,002	65,269	2,379,733
1980	*3,665,306	65,269	3,600,037

Exercise of the share options outstanding at the balance sheet dates would not materially affect the earnings per share.

*In December 1979, McIntyre issued 1,218,491 common shares by way of a rights offering to its shareholders.

10. Commitments and contingencies:

- (i) The Company has guaranteed mortgages amounting to \$2,721,000 at December 31, 1980.
- (ii) A long-term operating lease agreement for the supply of unit-train rail cars for the transportation of coal provides for minimum rental charges of \$1,090,000 for each of the next five years and a total of \$2,083,000 during the subsequent five-year period. This is the only significant operating lease agreement that the Company is involved in.
- (iii) The Company is obligated to pay approximately \$500,000 for the balance of the purchase price of the shares of Copton Excol Limited, an 82.7% owned subsidiary of McIntyre (82.5% at December 31, 1979; 81.1% at December 31, 1978), in the event that Copton Excol secures a contract for the sale of coal from its property.
- (iv) In 1969 the Company contracted to supply coal to Canadian Utilities Limited, to provide its requirements for fuel of contract specification at its thermal power generating plant at Smoky River, Alberta, for a period of fifteen years commencing December 1972 at a price of approximately \$0.32 per long ton. It was initially anticipated that these annual requirements would be in the range of 600,000 short tons per year. The contract is renewable at the option of the purchaser at a nominal price for a further fifteen years.

Alberta Power Limited, the assignee of Canadian Utilities, in 1973 commenced an action against the Company in the Supreme Court of Alberta claiming damages in the amount of \$804,000 for costs allegedly incurred by it in connection with the supply and use of coal supplied by the Company during 1973, and requesting certain declaratory and injunctive relief. The Company is defending the action. In the opinion of the Company's counsel, the plaintiff will not be successful in obtaining judgment in the amount of damages presently claimed or in obtaining an injunction. No provision therefor has been made in the accounts.

The plaintiff's claim as presently pleaded covers only the year 1973. Claims in respect of subsequent years may be made but the Company is not currently in a position to determine the amount of the damages, if any, which might be sustained with respect to those years.

The Company maintains that it is legally bound under the contract to supply only by-product coal from its metallurgical coal mining and processing operations. It believes, on the basis of its by-product coal production since its metallurgical coal mining operation at Smoky River commenced in 1970, that there will not be sufficient amounts of specification by-product coal available to fulfill the requirements of Alberta Power. The Company is presently delivering by-product coal to Alberta Power on a month to month basis, at cost. McIntyre understands that Alberta Power has also been purchasing and utilizing and continues to purchase and utilize additional fuel. The parties are currently engaged in discussions with a view to a possible settlement which may contemplate, among other things, long-term undertakings by the Company regarding delivery of minimum quantities of by-product coal from its Smoky River operation as well as other financial commitments.

- (v) On June 1, 1974 Copton Excol Limited, an 82.7% owned subsidiary of McIntyre (82.5% at December 31, 1979 and 81.1% owned at December 31, 1978), entered into an agreement with Meadowlark Farms Inc., a wholly owned subsidiary of Amax, Inc., to further explore and evaluate Copton's coal properties in the Smoky River region of Alberta in order to determine the economic feasibility of developing the properties for production. Under the terms of the agreement Meadowlark was to acquire a 50% interest in Copton's coal properties if, among other things, it delivered to Copton prior to May 31, 1976 a complete and detailed economic feasibility study in respect of Copton's coal properties on the basis of which it had to be prepared to proceed with the development of the properties to production. If it failed to do so, the agreement terminated. Prior to May 31, 1976 Meadowlark delivered to Copton a purported feasibility study which was reviewed by Copton with the assistance of independent engineering consultants. Based upon the opinions and information provided by these parties at that time, the Company's counsel, Messrs. Campbell, Godfrey and Lewtas, were of the opinion that the study submitted by Meadowlark did not qualify as a complete and detailed economic feasibility study within the terms of the agreement. Accordingly, on June 8, 1976 Meadowlark was advised in writing that the agreement had terminated.

In a counterclaim filed by Meadowlark in an action commenced by Copton on August 3, 1976, Meadowlark claims damages against Copton in the amount of \$308,382,000 and also alleges, among other things, that McIntyre induced Copton to breach the agreement. The Company believes that the Copton property is not a commercially feasible coal operation at the present time, and that the current fair market value of that property is nominal in relation to the damages pleaded by Meadowlark in the litigation. Examinations for discovery in that action have now been substantially completed and Copton is denying the claims made against it. Based on the opinion of its counsel, Messrs. Campbell, Godfrey and Lewtas, the Company maintains that there is no justification for any claims against it and, accordingly, no provision for damages has been made in the accounts.

- (vi) On December 5, 1980, Neptune Bulk Terminals Ltd. filed a Statement of Claim in the Supreme Court of British Columbia, alleging that it had suffered damages by reason of breach of contract, negligent misrepresentation, and negligence on the part of the Company, in connection with the sale of a stacker-reclaimer by the Company to Neptune Bulk Terminals Ltd.

There are numerous other defendants in this action.

Demands for discovery of documents are being given by the parties. A tentative trial date has been set for February, 1982. In its Statement of Claim, the plaintiff has not stated what quantum of damages it is seeking against the Company. In the opinion of counsel, it is too early to evaluate fully this claim.

11. Capital stock:

The capital stock of McIntyre consists of:

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Authorized -			
Preference shares			
Number of shares	unlimited	4,000,000	—
Par value	none	\$25	—
Common shares			
Number of shares	unlimited	5,000,000	3,000,000
Par value	none	none	none
Issued -			
Common shares	3,666,073	3,655,973	2,434,482

By Certificate of Amendment of Articles dated May 22, 1979, the authorized capital of the Company was increased by the creation of 4,000,000 preference shares with a par value of \$25 each issuable in series and the creation of an additional 2,000,000 common shares without par value. The Board of Directors of McIntyre is authorized to fix by resolution the rights, conditions, restrictions, limitations and prohibitions to be attached to the preference shares.

In December, 1979 McIntyre issued 1,218,491 common shares at \$65.00 per share by way of a rights offering to its shareholders. The proceeds of the issue, net of related expenses, were \$77,672,000.

On May 1, 1980 McIntyre was continued under the Canada Business Corporations Act and its authorized capital consists of an unlimited number of common shares and preference shares, each without nominal or par value.

12. Stock Option Plans:

In 1958, the Company established the Executive and Key Employee Stock Option Plan which set aside 175,000 common shares for granting of options to purchase shares at not less than 95% of the average market value on the date granted. In April 1980, the shareholders approved the 1980 Executive and Key Employee Share Option Plan which permits the Board of Directors to grant options for terms up to five years to purchase shares at a price of not less than 90% of the average market value of such shares on the preceding trading date. Options on up to 150,000 shares may be granted under this plan which also provides for stock appreciation rights in tandem with the options.

	<u>Number of shares</u>	<u>Option price</u>		<u>Market value</u>	
		<u>Per share</u>	<u>Total</u> (in thousands of dollars)	<u>Per share</u>	<u>Total</u> (in thousands of dollars)
Options outstanding					
December 31, 1977	18,000	\$25.18 to 41.80	\$619	\$25.63	\$ 461
December 31, 1978	18,000	25.18 to 41.80	619	24.50	441
Activity during 1979					
Granted	13,100	44.06 to 52.73	595	46.38 to 55.50	627
Exercised	(3,000)	44.06	(132)	56.25 to 68.00	177
Expired	(10,000)	41.80	(418)	45.50	455
Options outstanding					
December 31, 1979	18,100	25.18 to 52.73	664	66.50	1,204
Activity during 1980					
Granted	10,500	56.00	588	61.00	641
Exercised	(10,100)	25.18 to 52.73	(332)	71.75 to 98.00	817
Options Outstanding					
December 31, 1980	18,500	25.18 to 56.00	920	70.00	1,295

Options outstanding at December 31, 1980 include options on 8,000 common shares under the 1958 plan and five year options on 10,500 common shares under the 1980 plan. The five year options become exercisable after one year from the date of grant in cumulative increments of 25% per year.

Upon the exercise of options, the full amount received is credited to capital stock. No amounts are charged to earnings except upon the exercise of stock appreciation rights under the 1980 plan.

13. Pension Plans:

The Company has two pension plans, one for salaried and the other for hourly employees. The salaried plan is contributory and provides for an annual pension equivalent to the number of years of service times 1½ % of the average annual earnings during the best three years of the final ten years of employment. The hourly plan is non-contributory.

Total unfunded past service liability at July 1, 1979 (the date of the most recent actuarial valuation) amounted to \$265,000, relating to improvements in plan benefits made in 1973 and 1975. The liability is covered by the surplus in the plan. Due to the surplus in the plan the Company did not make any contributions in 1980. The Company's costs were \$164,000 in 1979 and \$288,000 in 1978.

14. Reconciliation of net income prepared in accordance with generally accepted accounting principles in Canada to conform with accounting principles which are generally accepted in the United States (U.S. GAAP): (In thousands of dollars except per share data).

	Year Ended December 31		
	1980	1979	1978
Loss from operations, as reported	\$ (2,992)	\$ (2,741)	\$ (2,264)
Equity in earnings of affiliates, as reported	\$ 24,662	\$ 39,226	\$ (94)
Adjustments to conform with U.S. GAAP			
Increase (decrease) in Company's equity in Falconbridge to reflect the adjustments to:			
1. Record long-term debt at exchange rate current at the end of each year (i)	(427)	1,502	(5,058)
2. Record gains which were deferred on translation of foreign subsidiaries accounts for consolidation purposes (i)	587	(541)	1,835
3. Adjust income tax assessments (ii)	—	1,223	(43)
4. Record capitalization of interest costs (iii)	1,234	—	—
Equity in earnings of affiliates, as adjusted	\$ 26,056	\$ 41,410	\$ (3,360)
Income from continuing operations in accordance with U.S. GAAP	\$ 23,064	\$ 38,669	\$ (5,624)
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge (iv)	13,995	—	—
Extraordinary items under U.S. GAAP	—	7,424	1,454
Net income in accordance with U.S. GAAP	\$ 37,059	\$ 46,093	\$ (4,170)
Earnings per share in accordance with U.S. GAAP			
Continuing operations	\$ 6.41	\$ 16.25	\$ (2.37)
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	3.88	—	—
Extraordinary items	—	3.12	0.61
	\$ 10.29	\$ 19.37	\$ (1.76)

(i) Under Canadian GAAP Falconbridge translates long-term debt into Canadian dollars at rates of exchange prevailing when the debts were incurred and defers net unrealized gains on translation of foreign subsidiaries' financial statements for consolidation purposes. U.S. GAAP requires recognition of all gains or losses resulting from translation of foreign currencies at year-end exchange rates.

(ii) Under Canadian GAAP Falconbridge gives retroactive accounting treatment to reassessments of prior years' tax. For fiscal years beginning 1978, the U.S. professional pronouncements require that the cumulative effect of the tax reassessments be given recognition in current income.

- (iii) Consistent with the Canadian mining industry's policy of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt capital. Interest costs incurred after the commencement of commercial production are expensed.

For fiscal years beginning 1980 U.S. GAAP require the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt.

- (iv) See note 8.

15. Mining Operations:

The following summarizes the results of coal mining operations for the current and prior two years:

	<u>1980</u>	<u>1979</u>	<u>1978</u>
	(in thousands of dollars)		
Clean coal produced, in thousands of long tons	1,470	1,044	1,316
Clean coal sold, in thousands of long tons	1,684	916	1,527
Sales	\$115,237	\$ 62,667	\$105,270
Cost of sales	118,094	57,659	92,807
Gross profit	<u>\$ (2,857)</u>	<u>\$ 5,008</u>	<u>\$ 13,463</u>

At the present time the Company has contracts for the annual delivery of 1,224,000 tons of coal to March 31, 1983 and 460,000 tons from January 1, 1982 to March 31, 1989. Prices for coal sold under these contracts will be approximately 6% higher in 1981 and approximately 13% higher in 1982, compared to the average selling price in 1980. The average selling price remained relatively constant throughout 1978, 1979 and 1980.

Despite the fact that price increases noted above may not fully cover expected cost increases in the short-term, the Company believes that the long-term outlook for coal markets is favourable and that further operating efficiencies will be achieved. Accordingly, the Company believes that its investment in property, plant and equipment will be realized from the cash flow from mining the coal reserves of the Smoky River property.

16. Related party transactions:

Effective January 1, 1979, McIntyre entered into a three year agreement with Canadian Superior Oil Ltd. providing for the participation of Canadian Superior in certain of McIntyre's exploration properties. Canadian Superior is entitled, on a project by project basis, to earn up to a 50% interest by matching previous expenditures by McIntyre. To December 31, 1980 Canadian Superior had expended \$4.1 million under this agreement.

17. Borrowing arrangements:

During 1980, McIntyre negotiated lines of credit totalling \$20,000,000 with two Canadian banks. The lines of credit can be utilized by way of direct Canadian or U.S. dollar loans or by way of Banker's Acceptances at the option of McIntyre. The interest rate for Canadian dollars drawn under both lines of credit is the prime lending rate of each bank, or the London Interbank Offer Rate plus 3/8 of 1%, at the option of McIntyre. McIntyre pays 3/8 of 1% to each bank for their Acceptance. There are no commitment fees and neither line of credit may be withdrawn by the bank. A compensating balance is not required under either line of credit. No drawings were made under either line of credit during 1980.

18. Segment information:

All sale of coal are made to unaffiliated customers, the major ones being a group of ten Japanese steel mills. The following is an analysis of sales (in thousands of long tons of coal) and revenue (in thousands of dollars):

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Major Customers			
Sales	1,116	718	1,103
Revenue	\$ 76,482	\$ 49,121	\$ 76,381
Others			
Sales	568	198	424
Revenue	\$ 38,755	\$ 13,546	\$ 28,889
Total			
Sales	1,684	916	1,527
Revenue	\$115,237	\$ 62,667	\$105,270

19. Restatement of 1978 and 1979 financial statements:

Certain of the 1979 and 1978 figures have been restated to conform with the 1980 presentation and as a result working capital reported as \$30,560,000 in 1979 and \$10,614,000 in 1978 has been restated to \$31,156,000 and \$11,003,000 respectively.

Auditors' Report

To the Shareholders of
McINTYRE MINES LIMITED:

We have examined the consolidated balance sheet of McIntyre Mines Limited (a Canada corporation and a subsidiary of The Superior Oil Company) as at December 31, 1980 and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of McIntyre Mines Limited as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 5, 1981

ARTHUR ANDERSEN & CO.
Chartered Accountants

Auditors' Report

To the Shareholders of
McINTYRE MINES LIMITED:

We have examined the consolidated balance sheets of McIntyre Mines Limited as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings and changes in financial position for the two years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The investment in Falconbridge Nickel Mines Limited has been accounted for on the equity basis, and we have relied on the report of the auditors who have examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the two years then ended in accordance with generally accepted accounting principles consistently applied.

Calgary, Alberta
February 15, 1980

PRICE WATERHOUSE & CO.
Chartered Accountants

Quarterly financial data (unaudited):

(in thousands of dollars)

	Quarter Ended			
	March 31 1980	June 30 1980	September 30 1980	December 31 1980
Coal revenue	\$25,866	\$36,176	\$32,527	\$20,668
Coal gross profit (loss)	(109)	3,872	3,105	(9,725)
Corporate expenses	274	511	1,902	(2,452)
Income taxes (recovery)	(380)	1,046	658	(1,824)
Income (loss) from operations	(3)	2,315	545	(5,849)
Equity in earnings of affiliates	12,283	6,468	2,791	3,120
Income before extraordinary items	12,280	8,783	3,336	(2,729)
Extraordinary items	13,995	—	—	—
Net income	\$26,275	\$ 8,783	\$ 3,336	\$ (2,729)
Earnings per share				
Before extraordinary items	\$ 3.41	\$ 2.44	\$ 0.93	\$ (0.76)
Total	\$ 7.30	\$ 2.44	\$ 0.93	\$ (0.76)

	Quarter Ended			
	March 31 1979	June 30 1979	September 30 1979	December 31 1979
Coal revenue	\$12,820	\$17,858	\$21,152	\$10,837
Coal gross profit	2,415	1,536	1,336	(279)
Corporate expenses	1,914	2,721	2,301	3,119
Income taxes	(400)	(457)	(475)	(974)
Income (loss) from operations	901	(728)	(490)	(2,424)
Equity in earnings of affiliates	5,815	9,030	8,530	15,851
Income before extraordinary items	6,716	8,302	8,040	13,427
Extraordinary items	1,536	3,149	891	1,848
Net income	\$ 8,252	\$11,451	\$ 8,931	\$15,275
Earnings per share				
Before extraordinary items	\$ 2.84	\$ 3.50	\$ 3.39	\$ 5.60
Total	\$ 3.49	\$ 4.83	\$ 3.76	\$ 6.37

	Quarter Ended			
	March 31 1978	June 30 1978	September 30 1978	December 31 1978
Coal revenue	\$32,871	\$16,553	\$33,759	\$22,087
Coal gross profit (loss)	4,646	2,942	4,156	1,719
Corporate expenses	3,125	2,451	5,472	3,967
Income taxes (recovery)	723	176	(253)	66
Income (loss) from operations	798	315	(1,063)	(2,314)
Equity in earnings of affiliates	(1,381)	314	(3,016)	3,989
Income before extraordinary items	(583)	629	(4,079)	1,675
Extraordinary items	—	—	—	1,454
Net income	(583)	629	(4,079)	3,129
Earnings per share				
Before extraordinary items	\$ (0.24)	\$ 0.26	\$ (1.72)	\$ 0.71
Total	(0.24)	0.26	(1.72)	1.32

Selected Financial Data

	1980	1979	1978	1977	1976
Production (000's omitted)					
Raw coal (long tons)	2,329	1,755	2,133	2,944	3,162
Clean coal (long tons)	1,470	1,044	1,316	1,740	1,865
Earnings (\$000's omitted)					
	\$	\$	\$	\$	\$
Revenue (a)					
- Coal sales	115,237	62,667	105,270	—	—
- Coal production	—	—	—	123,873	121,911
Exploration	1,353	333	4,279	3,220	1,690
Interest	(3,679)	8,620	6,310	4,287	4,024
Depreciation	9,309	9,005	9,083	8,413	6,589
Depletion	4,032	1,909	1,945	3,567	3,281
Deferred income taxes	(500)	(2,306)	712	2,920	3,026
Earnings (loss) from operations	(2,992)	(2,741)	(2,264)	4,983	8,162
Equity in earnings (losses) of affiliates	24,662	39,226	(94)	(11,513)	5,014
Reduction in valuation of coal inventory	—	—	—	(3,003)	—
Extraordinary items	13,995	7,424	1,454	(5,915)	2,741
Consolidated earnings (loss)	35,665	43,909	(904)	(15,448)	15,917
Per share (b)	\$9.90	\$18.45	\$(0.38)	\$(6.52)	\$6.72
Dividends paid (b)	—	—	1,184	2,369	2,369
Per share (b)	—	—	\$0.50	\$1.00	\$1.00
Dividends received from affiliates	7,325	5,545	342	924	2,448
Financial Position (\$000's omitted)					
Working capital	41,264	31,156	11,003	12,183	1,000
Investments	174,332	142,115	101,010	101,402	119,682
Property, plant and equipment	88,877	91,712	98,942	100,425	91,810
Long-term debt	4,594	4,712	68,944	70,876	49,858
Shareholders' equity	302,267	266,269	144,556	146,633	164,512
Per share (b)	\$83.96	\$111.89	\$61.01	\$61.90	\$69.44
Shareholders and Employees - December 31					
Total shares outstanding	3,666,073	3,655,973	2,434,482	2,434,482	2,434,482
Shareholders	1,980	2,134	2,513	2,737	2,720
Employees	1,060	790	822	998	950

(a) Beginning January 1, 1978, coal sales revenues were calculated on a coal sales basis as compared to a coal production basis in prior years.

(b) Per share figures calculated on the basis of average shares outstanding during the year less equity in own shares held by affiliate.

Management's Discussion and Analysis of Operations

Liquidity

During the past three years cash flow from operations has been sufficient to fund expenditures for property, plant and equipment and miscellaneous capital items. Working capital has increased over the period due to dividends from affiliates, capital receipts and proceeds from the issue of common shares in 1979 that exceeded repayment of debt.

A material change in liquidity position is not expected in the near future. At December 31, 1980, the Company had \$32.3 million in cash and committed operating lines of credit totalling \$20 million with two Canadian chartered banks.

Capital Resources

Capital expenditures for the past three years have been entirely to maintain the existing capital base and productive capacity of the mine. It is expected that this situation will largely continue in 1981, with the required funds coming from the sources mentioned above. However, the Company intends to make moderate expenditures in 1981 to investigate the potential of alternate technology for underground mining, particularly the longwall and hydraulic methods. Should one or both of these methods prove feasible, large capital expenditures would be required to put them into production. Financing would be obtained initially from liquid resources. If further funds were required, the Company's low debt-to-equity ratio would likely make external financing easily obtainable.

Results of Operations

During the past three years the average selling price has remained relatively constant due to the generally soft conditions in metallurgical coal markets. The average price for 1980 was \$68.43 per long ton. Primarily because operating costs have been steadily increasing during this period, gross profit has declined from \$13,463,000 in 1978 to \$5,008,000 in 1979 to a loss of \$2,857,000 in 1980.

The price that the Company receives under its contracts with Japanese steel mills will increase to \$74.00 per long ton on April 1, 1981 and to \$78.50 on April 1, 1982.

The Company suffered a major decline in coal sales in 1979, rebounding in 1980 to approximately the levels achieved in 1978 and prior years. The contract with Japanese steel mills was reduced from 1,500,000 to 800,000 long tons per year on April 1, 1978 due to a prolonged recession in world steel markets and a general decline in the use of low volatile metallurgical coal. Later that year spot sales also fell off. Total deliveries in 1979 were only slightly greater than the Japanese contract volume.

In the first quarter of 1980 the Company experienced renewed demand for its product despite continued recession in steel markets. Other major coal producers suffered interruptions in deliveries due to work stoppages and port congestion. Continued increases in the world price of oil have caused thermal generating companies and, to a lesser extent, steel mills, to seek stable long-term sources of coal. At the request of the Japanese steel mills, contract deliveries for the year ended March 31, 1981 were increased from 800,000 to 1,230,000 long tons. This increase combined with renewed spot sales allowed the Company to gradually resume production near capacity levels.

The contract with the Japanese mills has been renewed until March 31, 1983, for deliveries of 1,224,000 long tons per year. Commitments for spot orders and a seven year contract with Brazilian mills for approximately 460,000 metric tons per year starting January 1, 1982 have virtually assured that substantially all mine output can be sold in 1981 and 1982. The Company is confident that the trend toward stronger coal markets will continue and will begin to impact on the price of high-grade coal in the near future.

The large increase in administration costs in 1980 reflected the effort made to upgrade all Company functions, particularly engineering, planning, marketing, and cost control. Exploration expenditures also increased as McIntyre resumed carrying its interest in the Monkman Pass and Tasminex projects, which had been farmed out to Canadian Superior Oil Ltd. on January 1, 1979. The Company had interest income in 1980, rather than interest expense in 1978 and 1979, because capital stock issued in December, 1979 was more than sufficient to repay all bank debt.

MCINTYRE MINES

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Calgary, Alberta
T2P 0J3

Directors

C.L. BARNEY,
Senior Vice-President,
The Superior Oil Company

M.A. COOPER,
M.A. Cooper Consultants Inc.

THE HON. E.C. MANNING,
Chairman,
Manning Consultants Limited

A.R. NIELSEN,
President
Canadian Superior Oil Ltd.

J.B. REDPATH,
Director
Dome Mines Limited

J.E. REID,
President & Chief Executive Officer,
The Superior Oil Company

P.J. URSO,*
President & Chief Operating Officer
McIntyre Mines Limited

Executive Committee

J.E. Reid
C.L. Barney
M.A. Cooper
J.B. Redpath

Compensation Committee

A.R. Nielsen
E.C. Manning
J.E. Reid

Audit Committee

A.R. Nielsen
J.B. Redpath
E.C. Manning

- * Resigned effective March 13, 1981
- ** Appointed effective March 13, 1981

Officers

C.L. BARNEY,
Chairman & Chief Executive Officer

P.J. URSO,
President & Chief Operating Officer

B.A. THOMAS,*
Senior Vice-President

E.J. BETHELL,
Executive Vice-President, Marketing

P.L. MITCHELL,
Treasurer & Comptroller

W.M. BONE,
Corporate Secretary & General Counsel

Capital Stock

Authorized: Unlimited Number of Shares
without par value
Issued: 3,666,073 shares
Authorized: Unlimited number of preference
shares without par value
Issued: None

Auditors

Arthur Andersen & Co.
Chartered Accountants, Calgary, Alberta

Transfer Agents

Canada Permanent Trust Company
Toronto, Ontario and Calgary, Alberta

Bradford Trust Company
New York, N.Y.

Registrars

Crown Trust Company
Toronto, Ontario and Calgary, Alberta

The Chase Manhattan Bank
(National Association) New York, N.Y.

Stock Exchanges

The stock of the Company is listed for trading on
the Toronto Stock Exchange, Montreal Stock
Exchange and the New York Stock Exchange.

Operations

Coal Division: R.F. Lambert, General Manager, Grande Cache, Alberta
Madeleine Mines: J. Faubert, General Manager, Ste. Anne des Monts, Quebec

